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SUBJECT: AND THEN THERE WERE THREE: CUSTOMS UNION BETWEEN RUSSIA,
BELARUS, AND KAZAKHSTAN PROMISES FURTHER INTEGRATION

11. (SBU) Summary: In the view of Kazakhstani working-level Industry & Trade officials, the newly announced Russia-Belarus-Kazakhstan customs union within the framework of the Eurasian Economic Community (EEC) is an acknowledgement of Ukraine's refusal to take part. While the creation of the customs union will not necessarily lead to impediments on Kazakhstan's road to the WTO accession, it heralds a potential breakthrough in reinvigorating the EEC and bringing about a multi-faceted regional integration among Central Asia (minus Turkmenistan), Russia, and Belarus. End summary.

12. (U) According to press reports, Russian President Vladimir Putin confirmed on August 16 the creation of a trilateral customs union between Russian, Belarus, and Kazakhstan. The decision was reached at an informal summit in Sochi of the Eurasian Economic Community. (Note: the EEC encompasses Russia, Belarus, Kyrgyzstan, Kazakhstan, Tajikistan, and Uzbekistan; Ukraine, Moldova, and Armenia have observer status. End note.) Addressing other heads of state, Putin said that the creation of the customs union should be closely coordinated with the WTO accession process in regard to both the timeline and quality of accession. He also stated that other EEC states would join the customs union later.

SES IS WEAKENED: "IT'S UP TO UKRAINE NOW"

13. (SBU) The creation of the customs union appears to be the culmination of a long-term effort to establish one within the framework of the Single Economic Space (SES). (Note: the SES - comprised of Russia, Ukraine, Kazakhstan and Belarus - has long focused on establishing a customs union as part of its drive towards economic integration among the four countries. End note.) Zhanel Kushukova, Head of the Division on Development of Trade at the Kazakhstani Ministry of Industry and Trade, told Econoff that the effort to establish a customs union "has been underway for ten years." In a later conversation, Damegul Kabiyeveva, Deputy Director of the Ministry's Department on Trade Policy Development and WTO Accession, confirmed to Econoff that the focus on creating a customs union has now been switched from the SES to the EEC due to Ukraine's reticence. Ukraine, Kabiyeveva said, has been very slow in moving the process forward.

14. (SBU) Kushukova denied that the formation of a customs union within the EEC spells the death of the SES, however. The future direction of the SES, she explained, will be determined by Ukraine's actions vis-a-vis the new customs union. "It's up to Ukraine now," stated Kushukova; for the moment, she said, it is much easier to form a customs union among the three countries.

INTEGRATION IS IN THE AIR: EEC IS REENERGIZED

15. (SBU) Kushukova stated that the customs union will further liberalize the already liberal trade regime among Russia,

Belarus, and Kazakhstan. It will also provide additional uniformity to their external tariffs (i.e. import duties charged on goods from third countries). Currently, she said, the trio shares external tariffs on 62% of goods. The goal, she said, is to raise that ratio to 90%.

¶6. (SBU) Russia, Belarus, and Kazakhstan have signed the bulk of agreements making up the customs union. The plan, according to press reports, is to sign the remainder by the end of the year. Kushukova confirmed this goal and added that among the key agreements still to be signed are those that concern a common external tariff, preferences towards third-party countries (a system of preferences applied towards developing countries, akin to the USG's General System of Preferences), and border crossing regulations. Both Kushukova and Kabiyeveva made it clear that after all the agreements are signed, additional steps, such as introduction of necessary legislation and ratification, must be completed before the customs union goes into force.

¶7. (SBU) The new customs union is widely seen as an impetus towards reenergizing the previously dormant EEC. Uzbekistan's January 2006 entry in the EEC is another significant step in this direction. The plan now is to expand the customs union to include other EEC countries. The timeline for this process, Kushukova said, should become clearer by October.

¶8. (SBU) The customs union is seen as only one aspect of a renewed drive toward integration among the EEC countries. According to press reports, Putin spoke at the Sochi meetings about the importance of deepening cooperation between the EEC and the Collective Security Treaty Organization (CSTO) and working to restore Uzbekistan's CSTO membership. (Note: CSTO is comprised of Russia, Kazakhstan, Tajikistan, Kyrgyzstan, Belarus, Armenia, and Uzbekistan [currently rejoining]. End note.) In response to Econoff's question about the link between

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the EEC and the CSTO, Kushukova said that the two are independent of each other but both are part of the process of "drawing closer" and "integration."

¶9. (SBU) Separately, Kabiyeveva stated that integration under the umbrella of the EEC will encompass regional harmonization of the pension system, education system, the banking system, and the telecom sector, as well as introduction of a unified transport corridor. Directly involved in this work is the Minister of Industry & Trade Vladimir Shkolnik, who represents Kazakhstan on the EEC's "High-Level Group." "We used to have the CAU, the Central Asian Union," Kabiyeveva mused, "now we have the EEC." (Note: the CAU was a framework initiated in the second half of 2005 by President Nazarbayev for cooperation between Central Asian states in political and economic spheres. End note.)

"WTO FIRST, CUSTOMS UNION SECOND"

¶10. (SBU) Kushukova described the process of Kazakhstan's entry into the customs union as "parallel" with its drive to accede to the WTO, and not in any way impacting on accession plans. Astana, she added, is still eyeing 2007 as the accession year. In a separate conversation, Kabiyeveva was emphatic that the working assumption in her ministry regarding timing is still "WTO first, customs union second."

COMMENT

¶11. (SBU) Comment: Some of Putin's remarks along with speculation in the Kazakhstani media, suggest that the EEC customs union may become a mechanism by which Russia attempts to influence Kazakhstan's WTO accession. Moreover, Russia, Belarus, and Kazakhstan's far-reaching plans to harmonize their external tariffs could substantially complicate Kazakhstan's WTO accession process if the customs union comes into force before Kazakhstan accedes to the WTO. Still, it appears unlikely at this point that the customs union creation will occur rapidly enough to interfere with Kazakhstan's WTO accession, as long as Astana continues to make progress on the WTO front. At the

working level at least, Kazakhstani officials are treating the accession process as unaffected by the newly created customs union.

¶12. (SBU) Comment, continued: The customs union, a significant development in itself, may also serve as a catalyst for revitalizing the earlier dormant EEC. With the SES apparently undermined by Ukraine's reticence (for now), multi-faceted regional integration among Russia, Belarus, and Central Asia (minus Turkmenistan) may be taking center stage. Tashkent's newly found enthusiasm for cooperation within the EEC supports this vision. On the other hand, adding Uzbekistan to the mix is likely to complicate and delay any plans for integration. Uzbekistan's economy is not compatible with the more market-oriented Russian and Kazakhstani economies, and achieving agreement with Tashkent is likely to be a long and difficult process. Still, the EEC integration process may help draw the economies of Central Asia closer. At the same time, it may further strengthen the region's gravitational pull toward Russia and away from South Asia. End Comment.

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